[illegible] 1998E-2007E Including [illegible]

($ in Millions Except Per Share Amounts)

	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	'99-'04 CAGR	'99-'07 CAGR
Total Revenues	$10,784.2	$38,058.7	$45,147.3	$53,362.7	$62,772.6	$73,003.4	$84,545.9	$98,028.1	$113,911.2	$132,641.8	17.3%	16.9%
Revenue Growth Rate (yr. over yr.)	46.7%	252.9%	18.6%	18.2%	17.6%	16.3%	15.8%	15.9%	16.2%	16.4%		
MCI Network Expense Synergies		(1,200.0)	(2,100.0)	(3,100.0)	(3,900.0)	(4,680.0)	(5,616.0)	(6,739.2)	(8,087.0)	(9,704.4)		
Total Line Costs & Operating Expenses	$5,378.2	$18,039.8	$20,767.7	$24,013.2	$27,619.9	$32,121.5	$37,200.2	$43,132.4	$50,120.9	$58,362.4	15.6%	15.8%
Expense Growth Rate (yr. over yr.)	41.8%	235.4%	15.1%	15.6%	15.0%	16.3%	15.8%	15.9%	16.2%	16.4%		
Operating Expenses/Revenues	49.9%	47.4%	46.0%	45.0%	44.0%	44.0%	44.0%	44.0%	44.0%	44.0%		
Gross Margin	$5,406.0	$20,018.9	$24,379.5	$29,349.5	$35,152.6	$40,881.9	$47,345.7	$54,895.8	$63,790.3	$74,279.4	18.8%	17.8%
Gross Margin (Percentage)	50.1%	52.6%	54.0%	55.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%		
MCI SG&A Synergies		(1,300.0)	(1,400.0)	(1,500.0)	(1,700.0)	(2,040.0)	(2,448.0)	(2,937.6)	(3,525.1)	(4,230.1)		
Total SG&A	$2,150.0	$8,210.4	$9,480.9	$10,672.5	$12,554.5	$14,600.7	$16,909.2	$19,605.6	$22,782.2	$26,528.4	15.5%	15.8%
SG&A Growth Rate (yr. over yr.)	39.6%	281.9%	15.5%	12.6%	17.6%	16.3%	15.8%	15.9%	16.2%	16.4%		
SG&A/Revenues	19.9%	21.6%	21.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%		
EBITDA	$3,256.0	$11,808.4	$14,898.6	$18,677.0	$22,598.1	$26,281.2	$30,436.5	$35,290.1	$41,008.0	$47,751.0	20.8%	19.1%
EBITDA Growth Rate (yr. over yr.)	61.2%	262.7%	26.2%	25.4%	21.0%	16.3%	15.8%	15.9%	16.2%	16.4%		
EBITDA Margin	30.2%	31.0%	33.0%	35.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%		
WCOM Depreciation & Amortization	$732.6	$864.5	$1,037.4	$1,244.8	$1,493.8	$1,717.9	$1,975.6	$2,271.9	$2,589.9	$2,926.6	18.0%	16.5%
MCI Depreciation & Amortization		2,479.3	2,625.0	3,000.0	3,150.0	3,475.0	3,825.0	4,200.0	4,600.0	5,000.0	9.1%	9.2%
Depreciation Writedown Effect		(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)	(500.0)		
Goodwill From MCI		650.0	650.0	650.0	650.0	650.0	650.0	650.0	650.0	650.0		
CNS & ANS Depreciation	79.5	96.3	103.0	110.3	118.0	126.2	135.1	144.5	154.6	154.6	7.0%	6.1%
Brooks Depreciation	81.5	110.2	130.2	150.4	172.4	196.5	222.1	248.4	281.8	281.8	15.0%	12.5%
Amortization of MFS & UUNET Goodwill	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0	206.0		
Amortization of Network Technology (MFS)	80.0	80.0	80.0	80.0	0.0	0.0	0.0	0.0	0.0	0.0		
Amortization of Assembled Work Force (MFS)	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2		
Amortization of CNS & ANS Goodwill (Tax Deductible)	71.5	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0	78.0		
Total Depreciation & Amortization	$1,255.3	$4,068.5	$4,413.8	$5,023.7	$5,372.4	$5,953.8	$6,595.9	$7,303.0	$8,084.6	$8,801.3	10.1%	10.1%
Total Expenses	$8,783.5	$30,318.7	$34,662.5	$39,709.5	$45,546.8	$52,678.0	$60,705.3	$70,041.0	$80,967.8	$93,692.0	14.9%	15.1%
Operating Income	$2,000.7	$7,739.9	$10,484.8	$13,653.3	$17,225.8	$20,327.4	$23,840.6	$27,987.1	$32,943.5	$38,949.8	25.2%	22.4%
Operating Margin	18.6%	20.3%	23.2%	25.6%	27.4%	27.8%	28.2%	28.6%	28.9%	29.4%		
Interest Expense	(441.5)	($1,350.0)	($968.2)	($803.4)	($712.7)	($549.0)	($384.4)	($384.4)	($384.4)	($384.4)		
Interest Income	40.0	0.0	0.0	0.0	0.0	0.0	52.8	265.0	550.0	700.0		
Total Net Interest Expense	($401.5)	($1,350.0)	($968.2)	($803.4)	($712.7)	($549.0)	($331.6)	($119.4)	$165.6	$315.6		
Total Other Income	0.0	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)		
Pretax Income Pro Forma	$1,599.2	$6,329.9	$9,456.6	$12,789.9	$16,453.1	$19,718.4	$23,449.0	$27,807.7	$33,049.1	$39,205.4	29.9%	25.6%
Total Taxes	(711.6)	(2,679.3)	(3,782.5)	(4,934.3)	(6,194.3)	(7,402.4)	(8,782.8)	(10,395.5)	(12,334.8)	(14,612.6)		
Income Tax Rate	44.5%	42.3%	40.0%	38.6%	37.6%	37.5%	37.5%	37.4%	37.3%	37.3%		
Net Income	$887.5	$3,650.7	$5,674.0	$7,855.6	$10,258.8	$12,316.0	$14,666.2	$17,412.2	$20,714.3	$24,592.7	32.1%	26.9%
Preferred Dividends	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)	(26.4)		
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net Income to Common	$861.1	$3,624.3	$5,647.6	$7,829.2	$10,232.4	$12,289.5	$14,639.8	$17,385.8	$20,687.9	$24,566.3	32.2%	27.0%
Shares Outstanding/a	1070.9	1947.6	1947.6	1950.6	1953.6	1956.6	1959.6	1962.6	1965.6	1968.6		
Normalized Earnings Per Share	$0.83	$1.87	$2.91	$4.03	$5.25	$6.29	$7.48	$8.87	$10.54	$12.49	31.9%	26.8%
EPS Growth Rate (yr. over yr.)	nmf	nmf	55.4%	38.2%	30.4%	19.9%	18.9%	18.5%	18.8%	18.5%		
Special "Cash" Earnings Per Share/b	$1.17	$2.40	$3.44	$4.55	$5.73	$6.77	$7.96	$9.35	$11.02	$12.97	27.1%	23.5%
Traditional Cash Earnings Per Share/c	$2.00	$3.96	$5.18	$6.60	$8.00	$9.34	$10.85	$12.59	$14.64	$16.96	22.3%	19.9%
EBITDA Per Share	$3.04	$6.06	$7.65	$9.57	$11.57	$13.43	$15.53	$17.98	$20.86	$24.26	20.7%	18.9%
EBITDA/Share Growth Rate (yr. over yr.)	nmf	nmf	26.2%	25.2%	20.8%	16.1%	15.6%	15.8%	16.0%	16.3%		

A Actual. E Salomon Smith Barney Estimate. EBITDA Earnings *before* interest, taxes, depreciation, and amortization. SG&A *Selling, general* and administrative. nmf not meaningful.

/a 1999 shares outstanding include 875 *million* shares related to the MCI acquisition which assumes an exchange *ratio* of 1.501x which is the midpoint of the range.

/b Special "cash" earnings per share as defined by WorldCom adds back MFS purchase accounting amortization and cash utilization of MFS tax loss carryforwards. From 1998 onward we have *included* CNS/ANS goodwill in this calculation. From 1999 onward we have included MCI amortization in this calculation.

/c Earnings per share *plus* depreciation and amortization per share.

The Brooks Fiber acquisition closed 1/29/98 and is pooling *therefore* 1998 reflects a full year of BFPT results. 1997 HAS NOT BE RESTATED FOR BFPT.

The CompuServe/ANS acquisition close 1/31/98 and is purchase accounting therefore Q1'98 includes 2 *months* of CNS/ANS results.

1997 & 1998 HAVE NOT BEEN RESTATED FOR MCI -- 1999 HOWEVER DOES INCLUDE MCI.

Source: Smith *Barney* Inc./Salomon Brothers Inc *llions, except per-share data*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
nnual Free Cash Flow Projections										
es	$10,784	$38,059	$45,147	$53,363	$62,773	$73,003	$84,546	$98,028	$113,911	$132,642
\	3,256	11,808	14,899	18,677	22,598	26,281	30,437	35,290	41,008	47,751
ome	861	3,624	5,648	7,829	10,232	12,290	14,640	17,386	20,688	24,566
st Expense After-Tax	$245	$779	$581	$493	$444	$343	$240	$241	$241	$241
eciation and Amortization	1,255	4,068	4,414	5,024	5,372	5,954	6,596	7,303	8,065	8,801
: Capital Spending	(3,400)	(7,000)	(7,500)	(7,750)	(8,000)	(8,365)	(9,125)	(9,995)	(11,000)	(13,000)
s: Working Capital Increase	0	0	0	0	0	0	0	0	0	0
e Cash Flow	(1,039)	1,471	3,142	5,596	8,049	10,221	12,351	14,935	17,993	20,609
scounted Free Cash Flow	($919)	$1,152	$2,178	$3,432	$4,369	$4,909	$5,250	$5,618	$5,990	$6,071
erpetuity Value Calculation	*#1*	*#2*	*#3*							
iscount rate	13.0%	13.0%	13.0%							
\ssumed 2007 FV/EBITDA Multiple	8.0	9.0	10.0							
Implied 2007 P/E Multiple	14.7	16.6	18.8							
Part 2. Calculation of Theoretical Value Per Share										
Discount rate (%)	13.0%	13.0%	13.0%							
Sum Of Discounted Cash Flow (1998-2007)	$38,050	$38,050	$38,050							
Present Value Of Perpetual Cash Flow	112,535	126,602	140,669							
Value Of Debt Plus Equity	150,585	164,652	178,719							
Less: Market Value Of Debt/a	(21,000)	(21,000)	(21,000)							
Plus: Market Value Of Cash	100	100	100							
Theoretical Value	129,685	143,752	157,819							
Fully Diluted Shares Outstanding/b	1,947.6	1,947.6	1,947.6							
Theoretical Value Per Share	$66.59	$73.81	$81.03							
Implied Trading Value (15%-20% Discount Included)	**$54.93**	**$60.89**	**$66.85**							

1998 does not include MCI.

a/ Pro Forma for MCI as of September 1997.

b/including MCI Shares

Source: Smith Barney Inc./Salomon Brothers Inc

Figure [illegible] MCI Earnings Model 1997A-1999E

($ In Millions, Except Per Share Amounts)	1997A					1998E					
	1QA	2QA	3QA	4QA	1997A	1QE	2QE	3QE	4QE	1998E	1999E
Total Oper. Revenues	**$4,883**	**$4,843**	**$4,886**	**$5,113**	**$19,725**	**$5,213**	**$5,272**	**$5,327**	**$5,602**	**$21,413**	**$23,313**
Revenue Growth (Yr. Over Yr.)	8.7%	6.1%	4.3%	7.6%	6.7%	6.8%	8.9%	9.0%	9.6%	8.6%	8.9%
Total Oper. Expenses	**$4,297**	**$4,291**	**$4,557**	**$4,889**	**$18,034**	**$4,897**	**$4,886**	**$4,867**	**$5,044**	**$19,695**	**$21,374**
Cost Of Services	2,525	2,547	2,679	2,844	10,595	2,798	2,790	2,713	2,846	11,147	12,200
Sales, Operations & General	1,319	1,265	1,354	1,497	5,435	1,552	1,521	1,553	1,580	6,206	6,683
Depreciation	453	479	525	548	2,005	548	575	601	618	2,342	2,491
EBITDA	**$1,039**	**$1,031**	**$854**	**$771**	**$3,695**	**$864**	**$961**	**$1,060**	**$1,175**	**$4,060**	**$4,430**
Operating Income	**$586**	**$552**	**$329**	**$224**	**$1,691**	**$316**	**$386**	**$459**	**$558**	**$1,719**	**$1,939**
Interest Expense	(58)	(58)	(58)	(82)	(255)	(58)	(68)	(76)	(76)	(278)	(375)
Interest Income	6	4	4	4	18	3	3	3	1	10	22
Other Income	(3)	(4)	6	5	4	(4)	(4)	(4)	(4)	(15)	(15)
Equity In Affiliated Companies (Concert)	(37)	(24)	(46)	(21)	(128)	(20)	(20)	(20)	(20)	(80)	15
Pretax Income	**$494**	**$470**	**$235**	**$131**	**$1,330**	**$237**	**$297**	**$363**	**$459**	**$1,356**	**$1,586**
Income Taxes	$184	$175	$85	$45	$489	$88	$110	$134	$170	$502	$587
Tax Rate	37.2%	37.2%	36.0%	34.4%	36.7%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income	**$310**	**$295**	**$150**	**$86**	**$841**	**$149**	**$187**	**$228**	**$289**	**$854**	**$999**
Distribution on Trust Preferred Securities	(15)	(15)	(15)	(15)	(60)	(15)	(15)	(15)	(15)	(60)	(60)
Net Income Applicable to Common	**$295**	**$280**	**$135**	**$71**	**$781**	**$134**	**$172**	**$213**	**$274**	**$794**	**$939**
Average Common Shares	701	708	695	703	707	720	720	720	720	720	720
Earnings Per Share	**$0.42**	**$0.40**	**$0.19**	**$0.10**	**$1.10**	**$0.19**	**$0.24**	**$0.30**	**$0.38**	**$1.10**	**$1.30**
EBITDA per Share	$1.48	$1.46	$1.23	$1.10	$5.23	$1.20	$1.33	$1.47	$1.63	$5.64	$6.15
Ratios											
Telecom Expense/Revenues	51.71%	52.59%	54.82%	55.63%	53.71%	53.66%	52.93%	50.94%	50.81%	52.06%	52.33%
Sales, Operations and General/Revenues	27.01	26.12	27.71	29.28	27.55	29.76	28.85	29.15	28.21	28.98	28.67
EBITDA/Revenues	21.28	21.29	17.47	15.09	18.73	16.57	18.22	19.91	20.98	18.96	19.00
Operating Margin	12.00	11.40	6.73	4.37	8.57	6.06	7.32	8.62	9.96	8.03	8.32
EPS Growth Rate	0.0%	(8.0)%	(55.7)%	(77.0)%	(36.0)%	(55.6)%	(39.5)%	52.0%	279.0%	(0.1)%	18.2%

A Actual. E Smith Barney Inc./Salomon Brothers Inc estimate. EBITDA Earnings before interest, taxes, depreciation and amortization.
Q3'97 excludes $515 million in charges associated with exiting and restructuring several business customer contracts, eliminating selected retail channels & enhancing MCI's information. Technology Service operations plus increased provisions associated with certain uncollectible reseller contracts & litigation matters.
Q4'97 excludes $752 million in pre-tax charges ($0.66 in after-tax eps). Including $235 mm for employee and customer retention programs, $252 mm for restructuring and $265 million for technology upgrades primarily in data centers.
Source: Smith Barney Inc./Salomon Brothers Inc

($ in Millions, Except Per Share Amounts)	1997A					1998E					
	1QA	2QA	3QA	4QA	1997A	1QE	2QE	3QE	4QE	1998E	1999E
Core Business											
Revenue	$4,384	$4,353	$4,410	$4,544	$17,691	$4,581	$4,549	$4,608	$4,748	$18,487	$19,320
Revenue Growth (yr. over yr.)	8.2%	4.7%	3.2%	5.6%	5.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Traffic Growth (yr. over yr.)	4.0%	5.5%	6.0%	9.7%	6.3%						
Cost of Services	2,208	2,241	2,378	2,472	9,299	2,428	2,365	2,350	2,350	9,494	9,782
Cost of Service as a % of Revenues	50.4%	51.5%	53.9%	54.4%	52.6%	53.0%	52.0%	51.0%	49.5%	51.4%	50.6%
SG&A	1,111	1,018	1,023	1,103	4,255	1,164	1,160	1,152	1,144	4,620	5,021
SG&A as a % of Revenues	25.3%	23.4%	23.2%	24.3%	24.1%	25.4%	25.5%	25.0%	24.1%	25.0%	26.0%
Depreciation	412	433	472	495	1,812	467	489	510	525	1,991	2,110
Total Operating Expenses	$3,731	$3,692	$3,873	$4,070	$15,366	$4,059	$4,014	$4,012	$4,020	$16,105	$16,913
Operating Income	$653	$661	$537	$474	$2,325	$523	$534	$596	$729	$2,382	$2,407
Operating Income Growth (yr. over yr.)	6.4%	10.2%	-13.0%	-23.8%	-5.2%	-20.0%	-19.1%	11.0%	53.8%	2.5%	1.1%
Operating Margin	14.9%	15.2%	12.2%	10.4%	13.1%	11.4%	11.8%	12.9%	15.4%	12.9%	12.5%
EBITDA	1,065	1,094	1,009	969	4,137	990	1,023	1,106	1,254	4,373	4,518
EBITDA Margin	24.3%	25.1%	22.9%	21.3%	23.4%	21.6%	22.5%	24.0%	26.4%	23.7%	23.4%
Non-operating (expense) income, net	(250)	(257)	(203)	(184)	(894)	(178)	(182)	(203)	(248)	(810)	(819)
Net Income	$403	$404	$334	$290	$1,431	$321	$353	$393	$481	$1,572	$1,589
Earnings Per Share	$0.57	$0.57	$0.48	$0.41	$2.02	$0.45	$0.49	$0.55	$0.67	$2.18	$2.21
Ventures and Developing Markets											
Revenue	$579	$613	$608	$708	$2,508	$727	$823	$823	$963	$3,336	$4,488
Revenue Growth (yr. over yr.)	22%	29%	28%	35%	28%	26%	34%	35%	36%	33%	35%
Cost of Services	389	411	411	487	1,698	486	541	476	614	2,118	2,926
SG&A	211	253	338	404	1,206	388	361	401	436	1,585	1,682
Depreciation	41	46	53	53	193	81	86	91	93	351	381
Total Operating Expenses	$641	$710	$802	$944	$3,097	$955	$988	$968	$1,143	$4,054	$4,989
EBITDA	($21)	($51)	($141)	($183)	($396)	($147)	($79)	($54)	($87)	($367)	($121)
EBITDA Margin	-3.6%	-8.3%	-23.2%	-25.8%	-15.8%	-20.2%	-9.6%	-6.5%	-9.0%	-11.0%	-2.7%
Operating Income	($62)	($97)	($194)	($236)	($589)	($228)	($165)	($145)	($180)	($718)	($502)
Operating Margin	-10.7%	-15.8%	-31.9%	-33.3%	-23.5%	-31.4%	-20.1%	-17.6%	-18.7%	-21.5%	-11.2%
Non-operating (expense) income, net	(4)	5	49	47	112	16	(12)	(23)	(16)	(35)	(196)
Equity Income of Affiliates (Concert)	(37)	(24)	(46)	(21)	(128)	(20)	(20)	(20)	(20)	(80)	15
Net Income	($103)	($116)	($191)	($210)	($605)	($232)	($197)	($188)	($215)	($832)	($683)
Earnings Per Share	($0.15)	($0.16)	($0.28)	($0.30)	($0.86)	($0.32)	($0.27)	($0.26)	($0.30)	($1.16)	($0.95)
Revenue Eliminations	($80)	($123)	($132)	($139)	($474)	($95)	($100)	($105)	($110)	($410)	($495)

Source: Smith Barney Inc./Salomon Brothers Inc

Companies mentioned in this report:

AT&T (T–$65.44; 3M)
Disney (DIS–$107.88; 1M)
Home Depot (HD–$68.88; 2M)
MCI (MCIC–$49)
Merck (MRK–$130.75; 3M)
Microsoft* (MSFT–$87.25; 1M)
Sprint (FON–$66; 1M)
Wal-Mart (WMT–$50.75; 1L)

Prices are as of the close, April 7, 1998

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ADDITIONAL INFORMATION AVAILABLE UPON REQUEST SF03F322

Guide to investment ratings: *RANK* is a guide to the expected total return over the next 12-18 months. The total return required for a given rank depends on the degree of risk (see below) in a stock. The higher the risk, the higher the required return. For example, a 1 (Buy) rating indicates a total return ranging from 15% or greater for a low-risk stock to 30% or greater for speculative stocks. Estimated returns for other risk categories are scaled accordingly. *RISK* takes into account predictability of earnings and dividends, financial leverage, and stock price volatility. *L (Low Risk)*: predictable earnings and dividends, suitable for conservative investor. *M (Medium Risk)*: moderately predictable earnings and dividends, suitable for average equity investor. *H (High Risk)*: earnings and dividends are less predictable, suitable for aggressive investor. *S (Speculative)*: very low predictability of fundamentals and a high degree of volatility, suitable only for investors/traders with diversified portfolios that can withstand material losses. *V (Venture)*: indicates a stock with venture capital characteristics that is suitable for sophisticated investors with a high tolerance for risk and broadly diversified investment portfolios. A thorough explanation of the ratings system is available upon request.

EXHIBIT 3

Industry: Telecommunications Services
November 18, 1997
TS3120

Frank J. Governali, C.F.A. 207/780-6210 *frank.governali@csfb.com*

STRONG BUY

WorldCom, Inc. (WCOM)

Summary

Price decline resulting from MCI merger agreement provides renewed buying opportunity of the best large cap stock in the industry.

Price 11/12/97[1]	Target (12 Months)	Dividend	Yield	Mkt. Value (Millions)	52-Week Price Range
$29\frac{15}{16}$	$50	—	—	$31,794	$38\frac{1}{16}$–$21\frac{7}{8}$
	Annual EPS	**Prev. EPS**	**Abs. P/E**	**Rel. P/E**	**EBITDA/ Share**
12/99E	$1.95		15.4X	—	$6.15
12/98E	0.80		37.4	198%	3.12
12/97E	0.38		78.8	390	2.19
12/96A	0.68		44.0	188	1.30
	March	**June**	**September**	**December**	**FY End**
1997E	$0.05A	$0.08A	$0.12A	$0.14	Dec. 31
1996A	0.21	0.25	0.27	0.27	

ROIC	NA	Total Debt (6/97)	5,056 mil.	Book Value/Share (6/97)	$13.74
WACC	NA	Debt/Total Capital (6/97)	27.8%	Common Shares	1,062 mil.
EP Trend[2]	NA	Est. 5-Yr. EPS Growth	70%	Est. 5-Yr. Div. Growth	—

[1]On 11/12/97 DJIA closed at 7401.3 and S&P Industrials at 906.
[2]Economic profit trend.
NA = Not available.

WorldCom is a leading integrated global telecommunications company. It is the fourth largest long distance carrier in the United States, the largest Internet service provider, and the largest competitive local exchange carrier (CLEC).

Summary

We are extremely positive on WorldCom's proposed merger with MCI. Although it would have been "nice" to have won MCI at a lower price, even at the agreed-upon $51 price, value is being created for shareholders. We are estimating earnings per share of $1.95 for 1999 and about $2.95 for 2000. Adding back the amortization of goodwill, the estimated earnings per share for 1999 and 2000 would be $2.60 and $3.60, respectively. WorldCom is cheap, and investors who are optimistic about its stock price should be buying WorldCom directly as opposed to buying MCI. Thus, we are reiterating our Strong Buy on WorldCom with a $50 price target in 12 months.

There are three questions to consider in evaluating a purchase of WCOM stock now, in light of the MCI merger accord. First, Do the projected financial benefits of the merger make sense from a conceptual perspective? Second, Is the achievement of the cost savings a realistic possibility? And third, What is WCOM stock worth now, given the uncertainties associated with any large-scale merger? We will try to address these questions in this report.

Does the Merger Make Financial Sense?

Margin expansion and revenue enhancement are the two variables that drive the WorldCom-MCI merger. The real opportunity for WorldCom is to utilize the combined assets and people in a more productive fashion by pumping more traffic through the networks, giving the salespeople more products to sell, and making the MIS systems process more "stuff." This is not cost-cutting; it is avoiding costs. It is margin enhancement on a bigger revenue base, not job cuts.

How does WorldCom enhance margins? This occurs by optimizing the use of assets (i.e., maximizing operating leverage). Conceptualizing this point, WCOM has built assets in the United States and around the world that become increasingly profitable as more traffic is carried. The company can achieve targeted levels of profitability by growing revenues internally. But it can accelerate this process by acquiring revenues and maximizing operating leverage faster. Of the $20 billion of cumulative synergies that the company forecasts for the first five years, we bet at least two-thirds is derived from the more intensive use of assets.

The remainder of the synergies come from more traditional efficiency efforts and improving the mix of business. Greater efficiency can be achieved through eliminating redundant operations, improving the productivity of the sales force, and reducing customer churn. This is the management quotient, the part good management plays in the process.

Optimizing the mix of revenues is critically important to raising margins and improving returns on capital. WorldCom has a strong track record for getting into markets with the highest growth, highest margins, and lowest potential risk. This is a little easier when you are building a new company; it is harder when there are legacy businesses to worry about. That is MCI's problem, particularly in the residential sector. We expect that WorldCom will figure out better and more profitable ways of serving the residential market. First and foremost, this means trying to raise the revenue per subscriber by cross-selling services. After this though, it may mean serving these customers through alternative channels, like resellers. It may mean using alternative distribution and servicing channels, like Internet service providers, cable companies, power companies, or other sorts of distributors. We do not expect WorldCom to continue serving the mass market in the ways that MCI has traditionally. Thus, we expect the revenue mix to be optimized for growth, margins, and returns.

How will revenue growth be enhanced? Basically WorldCom needs to get more customers to spend more money. This is easy to describe, harder to do. It means cross-selling services, expanding the array of services available, and ultimately improving customer retention. With the merger, there will be no company better suited to achieve these goals. Although it will not be easy to achieve, we think results can be forthcoming as early as the first half of 1998, even before the merger closes.

Do the Numbers Add Up?

Targeted Synergies

WorldCom is targeting cash expense savings from the merger of $2.5 billion in the first full year of combined operations (1999). We are thinking of these expense savings as avoided costs or margin gains and not absolute reductions in spending levels. As Table 1 details, by 2002 cash expense savings are estimated to be $5.6 billion. Cumulative savings over the period are projected to be $20 billion. Capex savings are projected to be $2.0 billion per year.

Access to MCI's financial data gave WorldCom the confidence to fine-tune upward its cost savings estimates from its earlier October 1 announcement by $150 million in 1999 and $1.1 billion by the year 2002. Table 1 details the company's current expectations for cost savings as compared with October 1 expectations.

Table 1
Revised Pretax Cost Saving Estimates
$ in billions

	1999		2002	
Source	**Prior Est.**	**Revised Est.**	**Prior Est.**	**Revised Est.**
Operating Costs				
Core SG&A	$1.0	$1.0	$1.3	$1.3
MCI Metro	0.7	0.5	1.5	1.2
Domestic line costs	0.6	0.6	1.3	1.8
International line costs	0.1	0.4	0.3	1.3
Total	**$2.4**	**$2.5**	**$4.4**	**$5.6**
Capital Expenditures				
LD/Int'l/Internet	$0.8	$0.9	$1.2	$1.3
Local	0.7	0.7	0.3	0.3
IT	—	0.4	—	0.4
Total	**$1.5**	**$2.0**	**$1.5**	**$2.0**
Cumulative Savings				
	1999	**2000**	**2001**	**2002**
Prior estimate	$2.350	$2.964	$3.770	$4.444
Revised estimate	$2.505	$3.567	$4.609	$5.596

WorldCom expects that, as a result of the expense synergies, the merger will be accretive to earnings by 20% in the first year, using the midpoint of the deal's collar. This does not include any revenue synergies. Table 2 lists WorldCom's estimate of EPS accretion with and without revenue synergies and at various deal closing prices.

Table 2
EPS Accretion Estimates

Final Deal Price	EPS Accretion With No Revenue Synergies	EPS Accretion With With Revenue Synergies
$41.00	27%	33%
36.00	20%	25%
29.00	9%	13%

WorldCom is targeting revenue growth over the next five years of 20% annually. Another way of looking at this is that WCOM expects annual revenue growth through the merger will be 150-200 basis points higher than it would otherwise have been. In addition, WorldCom believes that the merger creates synergies that will allow the two companies together to generate a billion dollars of incremental revenue in 1999. This obviously assumes effective cross-selling, penetration of local markets, and even heightened growth of international and Internet services. These types of benefits are the dreams of many companies as they contemplate mergers. WCOM is one of the few companies that has fulfilled these merger dreams in the past and has a good shot of succeeding again.

To accelerate the achievement of these synergies, WorldCom and MCI have agreed to immediately expand commercial business arrangements that already exist between the two companies. Additionally, the companies will immediately pursue commercial arrangements for MCI to sell WorldCom local services and for WorldCom to sell MCI's services.

Fair Value Accounting

WorldCom will be using purchase accounting in the deal, and it will be tax-free to MCI shareholders. Purchase accounting creates goodwill (the difference between stated book value and the purchase price), which depresses reported earnings. However, the increased goodwill amortization will be largely offset by a reduction in depreciation expense because of asset write-downs.

WorldCom intends to write down the value of MCI's assets in the merger, using "fair value accounting." The concept behind this accounting process is to reduce the value of certain classes of assets to depreciate replacement value. The net effect will be a $490 million pretax reduction in depreciation ($380 million after tax). This reduction in depreciation will be more than offset by an increase in goodwill amortization of $650 million BT and MCI had been working on this write-down with their outside auditors, and WorldCom will piggyback on work already done. As a result, most of MCI's assets have already been appraised.

The use of pooling accounting instead of purchase accounting would have avoided the creation of goodwill. This would have resulted in noncash expenses being lower by a relatively immaterial amount of $150 million. This entire discussion relates to noncash accounting issues. Thus, the choice of the accounting standards used here are irrelevant to the value creation to shareholders, which is driven by real cash.

Do the Numbers Make Sense?

On the face of it, $20 billion in cost savings is too large a figure to fathom. It is the budget for some small countries. Digging a bit deeper, we think the number does make sense. First, keep in mind that we are *not* talking about cutting costs by $20 billion. Rather, we are talking about avoiding spending $20 billion by pumping more revenues through the same pipelines and enhancing margin. Given our estimate of 2002 revenues for the combined companies of $67 billion, $5.6 billion in cash expense savings in that year amounts to 8.4% of margin. Our new estimate for 2002 EBITDA margin is 35%. Our old estimate of WorldCom's EBITDA margin in that year was 31%. This is not a huge jump given the potential for more efficient asset utilization. For MCI the EBITDA estimate was 20% by 2002. (Keep in mind that today WCOM has an EBITDA margin of about 28.5%, whereas MCI's normalized margin is only about 20%.) By pumping more revenues through the same pipeline and generating a better mix of revenues (local plus long distance plus Internet), we think this increase is achievable.

To put some perspective on these numbers, today the RBOCs produce EBITDA margins of 40-45%, reflecting the high margins of the local and wireless segments. Consensus EBITDA margins for WCOM, pre-MCI for 1998 was about 31%. The Internet business is today producing 30% plus EBITDA margins for WCOM. Again, success will be driven by creating the right mix of revenues, efficient use of capital, and effective management.

Combining our WCOM model with our MCI model and adding the synergies, we have come up with an initial model through the year 2002. Table 3 depicts the highlights of the model. More work needs to be done to refine this forecast, but we feel comfortable with the initial conclusions presented.

Table 3
Summary Model for MCI WorldCom
$ in millions, except per share

	Old WCOM Est	New MCI WCOM Forecast			
	1999E	1999E	2000E	20001E	20002E
Revenue	$15,029	$38,570	$46,284	$55,541	$66,649
EBITDA	4,714	11,422	14,811	18,884	23,327
% Margin	31%	30%	32%	34%	35%
Operating income	3,280	7,244	10,322	14,053	18,120
Net income	1,697	3,620	5,473	7,757	10,242
EPS	$1.60	$1.95	$2.95	$4.18	$5.52
EPS before goodwill amortiz.	$2.00	$2.60	$3.60	$4.83	$6.17
Shares outstanding	1,062	1,857	1,857	1,857	1,857
Cash from operations (NI + Dep+Goodwill amortization)	$3,131	$7,799	$9,962	$12,588	$15,449
Capital expenditures	3,000	7,000	8,000	9,000	10,000
Free Cash Flow	131	799	1,962	3,588	5,449

A few points should be made about the Table 3 model. First, in the post-1999 period we have simply grown total revenues by 20% per year. This is not an acceptable way of modeling the revenues normally, but for simplicity and time, we thought this was a good starting point for illustrating the growth the combined companies should be able to achieve. In terms of margins, we have raised them gradually, with the assumption that the synergies can kick in. This is tempered by the margins that are already achieved by other companies in different segments of the industry. Finally, in terms of capital spending, WorldCom is talking about $6-7 billion per year in 1999 and beyond. We have raised this figure considerably, reflecting the continued strong growth in volumes the model implies. We are not sure where this capital spending should go, but the numbers listed in Table 3 are probably a good starting point for the estimate. What this simplified model demonstrates is that the new MCI WorldCom company should produce significant free cash flow, with which it can pay down debt and potentially raise capital spending and investment, if needed.

Is WCOM Paying the Right Price for MCI?

How do we know that WCOM is paying the right price for MCI? WorldCom is paying about $42 billion for MCI in terms of debt assumed and stock purchased. This amounts to about 10 times MCI's estimated 1999 EBITDA, or 44 times estimated 1999 EPS. Another way of looking at this is that for $42 billion WCOM is getting MCI plus the future cash synergies that are anticipated. In 1999 WCOM is projecting $2.5 billion of EBITDA improvement through the merger, so this added to our projection of $4.2 billion for MCI's original EBITDA would point to an EBITDA multiple of only 6.3 times 1999 estimates.

Optimists Buy WCOM

A little bit of arithmetic goes a long way to solve some vexing questions. In the merger with MCI, should investors who want to own WorldCom ultimately be buying MCI or WorldCom? The answer comes down to where the WorldCom stock is when the deal closes relative to the spread between the two share prices.

Optimists, who expect a strong rebound in WorldCom's stock should be buying WorldCom directly. Pessimists, who think WorldCom's stock will remain under pressure until the deal is closed, would be better served buying MCI. We have prepared a matrix (Table 4) showing the returns at a range of closing prices and purchase prices for WorldCom's and MCI's shares. The result of this simple arithmetic is that at the current prices for MCI and WorldCom (WorldCom at $31, MCI at $42), returns are about the same if the deal closes at about $38. If it closes above $38, WorldCom is the stock to buy, and below $38, MCI should be bought. This calculation of course does not take into account timing or closing risk.

We think the deal will close sometime in the third quarter 1998, and that WorldCom's share price will probably have risen to about $45 by then. If this occurs, WorldCom is the hands-down favorite to buy. Buying WorldCom today at $31, would of course provide a percent gain of 45%, to $45. Buying MCI at $42 on the other hand provides a percent gain of 33%. So despite the fact that MCI looks to be trading at a significant discount to its deal price, WorldCom is still the better buy for investors expecting great things of the WorldCom stock.

If WorldCom earns $1.95 in 1999, followed by average EPS growth in the following three years above 40%, a premium multiple is obviously justified. A 25 P/E on the $1.95 estimate produces a $49 price one year from now. Rounding up to $50 as a price target, this would produce an EBITDA multiple on 1999 estimates of 9.9. These two valuation measures suggest a stock that is quite undervalued.

The Deal Structure

WorldCom plans to pay each MCI shareholder (except BT) $51 in WorldCom stock if the WorldCom stock trades between $29 and $41. (BT will be paid $51 in cash for each Class A share of MCI it owns, or $6.9 billion. WorldCom will also pay $465 million to BT for MCI breaking its contract to merge.) The calculation of the exact exchange ratio will be calculated based upon the 20-day average of WorldCom's high- and low-closing prices prior to the close of the deal. If the average closing price of WorldCom stock during this 20-day period falls below $29, MCI shareholders receive a fixed ratio of 1.7586 WCOM shares for each of their MCI shares. If WCOM's average price is above $41, MCI holders will receive 1.2439 shares for each MCI share owned. If the deal is done within the collar, MCI shareholders will own approximately 45% of WorldCom. At $41 or above, MCI shareholders will own 41% of the new company. At $29 or below, they will own 50% of the new company. MCI's Concert partnership with BT will be dissolved. However, the new MCI WorldCom will continue to act as a distributor of Concert products and services through a nonexclusive arrangement that has a life term of at least five years.

Management of the new company will be a mix of leaders drawn from MCI and WorldCom. Bert Roberts will become chairman of MCI WorldCom and Bernie Ebbers will serve as president and chief executive officer. In this position, Ebbers will continue to maintain the reins of power in WorldCom. Gerald Taylor, chief executive officer of MCI, will become vice chairman of MCI WorldCom, in charge of international. John Sidgmore will become vice chairman and chief operating officer of MCI WorldCom, while Scott Sullivan will be the company's chief financial officer.

N.B.: CREDIT SUISSE FIRST BOSTON CORPORATION has, within the last three years, served as a manager or co-manager of a public offering of securities for British Telecommunications and makes a primary market in issues of MCI Communications Corp. Closing prices are as of November 12, 1997:

British Telecommunications (BTY, $78^{3}/_{4}$)
GTE Corp. (GTE, $44^{3}/_{4}$, Buy)
MCI Communications Corp (MCIC, $40^{5}/_{16}$, Buy)

Table 4
Return on Investment: MCI versus WorldCom

BUY MCI At:	If WCOM's stock is at these prices at the time the deal closes:																								
	$26.00	$27.00	$28.00	$29.00	$30.00	$31.00	$32.00	$33.00	$34.00	$35.00	$36.00	$37.00	$38.00	$39.00	$40.00	$41.00	$42.00	$43.00	$44.00	$45.00	$46.00	$47.00	$48.00	$49.00	$50.00
	Then you will get this price for your MCI shares at the time of closing:																								
	$45.72	$47.48	$49.24	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$52.24	$53.49	$54.73	$55.98	$57.22	$58.46	$59.71	$60.95	$62.20
	And your percentage gain will be this, depending on what you paid for your MCI shares:																								
$40.00	14%	19%	23%	27%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	31%	34%	37%	40%	43%	46%	49%	52%	55%
$41.00	12%	16%	20%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	27%	30%	33%	37%	40%	43%	46%	49%	52%
$42.00	9%	13%	17%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	24%	27%	30%	33%	36%	39%	42%	45%	48%
$43.00	6%	10%	15%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	21%	24%	27%	30%	33%	36%	39%	42%	45%
$44.00	4%	8%	12%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%	19%	22%	24%	27%	30%	33%	36%	39%	41%
$45.00	2%	6%	9%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	16%	19%	22%	24%	27%	30%	33%	35%	38%
$46.00	-1%	3%	7%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	14%	16%	19%	22%	24%	27%	30%	33%	35%
$47.00	-3%	1%	5%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	11%	14%	16%	19%	22%	24%	27%	30%	32%
$48.00	-5%	-1%	3%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	9%	11%	14%	17%	19%	22%	24%	27%	30%
$49.00	-7%	-3%	0%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	7%	9%	12%	14%	17%	19%	22%	24%	27%
$50.00	-9%	-5%	-2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	4%	7%	9%	12%	14%	17%	19%	22%	24%

Buy WCOM At:	If WCOM's stock is at these prices at the time of closing,																								
	$26.00	$27.00	$28.00	$29.00	$30.00	$31.00	$32.00	$33.00	$34.00	$35.00	$36.00	$37.00	$38.00	$39.00	$40.00	$41.00	$42.00	$43.00	$44.00	$45.00	$46.00	$47.00	$48.00	$49.00	$50.00
	Then your return by buying WCOM's stock directly would be this:																								
$26.00	0%	4%	8%	12%	15%	19%	23%	27%	31%	35%	38%	42%	46%	50%	54%	58%	62%	65%	69%	73%	77%	81%	85%	88%	92%
$27.00	-4%	0%	4%	7%	11%	15%	19%	22%	26%	30%	33%	37%	41%	44%	48%	52%	56%	59%	63%	67%	70%	74%	78%	81%	85%
$28.00	-7%	-4%	0%	4%	7%	11%	14%	18%	21%	25%	29%	32%	36%	39%	43%	46%	50%	54%	57%	61%	64%	68%	71%	75%	79%
$29.00	-10%	-7%	-3%	0%	3%	7%	10%	14%	17%	21%	24%	28%	31%	34%	38%	41%	45%	48%	52%	55%	59%	62%	66%	69%	72%
$30.00	-13%	-10%	-7%	-3%	0%	3%	7%	10%	13%	17%	20%	23%	27%	30%	33%	37%	40%	43%	47%	50%	53%	57%	60%	63%	67%
$31.00	-16%	-13%	-10%	-6%	-3%	0%	3%	6%	10%	13%	16%	19%	23%	26%	29%	32%	35%	39%	42%	45%	48%	52%	55%	58%	61%
$32.00	-19%	-16%	-13%	-9%	-6%	-3%	0%	3%	6%	9%	13%	16%	19%	22%	25%	28%	31%	34%	38%	41%	44%	47%	50%	53%	56%
$33.00	-21%	-18%	-15%	-12%	-9%	-6%	-3%	0%	3%	6%	9%	12%	15%	18%	21%	24%	27%	30%	33%	36%	39%	42%	45%	48%	52%
$34.00	-24%	-21%	-18%	-15%	-12%	-9%	-6%	-3%	0%	3%	6%	9%	12%	15%	18%	21%	24%	26%	29%	32%	35%	38%	41%	44%	47%
$35.00	-26%	-23%	-20%	-17%	-14%	-11%	-9%	-6%	-3%	0%	3%	6%	9%	11%	14%	17%	20%	23%	26%	29%	31%	34%	37%	40%	43%
$36.00	-28%	-25%	-22%	-19%	-17%	-14%	-11%	-8%	-6%	-3%	0%	3%	6%	8%	11%	14%	17%	19%	22%	25%	28%	31%	33%	36%	39%
$37.00	-30%	-27%	-24%	-22%	-19%	-16%	-14%	-11%	-8%	-5%	-3%	0%	3%	5%	8%	11%	14%	16%	19%	22%	24%	27%	30%	32%	35%
$38.00	-32%	-29%	-26%	-24%	-21%	-18%	-16%	-13%	-11%	-8%	-5%	-3%	0%	3%	5%	8%	11%	13%	16%	18%	21%	24%	26%	29%	32%
$39.00	-33%	-31%	-28%	-26%	-23%	-21%	-18%	-15%	-13%	-10%	-8%	-5%	-3%	0%	3%	5%	8%	10%	13%	15%	18%	21%	23%	26%	28%
$40.00	-35%	-33%	-30%	-28%	-25%	-23%	-20%	-18%	-15%	-13%	-10%	-8%	-5%	-3%	0%	2%	5%	8%	10%	13%	15%	18%	20%	23%	25%
$41.00	-37%	-34%	-32%	-29%	-27%	-24%	-22%	-20%	-17%	-15%	-12%	-10%	-7%	-5%	-2%	0%	2%	5%	7%	10%	12%	15%	17%	20%	22%
$42.00	-38%	-36%	-33%	-31%	-29%	-26%	-24%	-21%	-19%	-17%	-14%	-12%	-10%	-7%	-5%	-2%	0%	2%	5%	7%	10%	12%	14%	17%	19%
$43.00	-40%	-37%	-35%	-33%	-30%	-28%	-26%	-23%	-21%	-19%	-16%	-14%	-12%	-9%	-7%	-5%	-2%	0%	2%	5%	7%	9%	12%	14%	16%
$44.00	-41%	-39%	-36%	-34%	-32%	-30%	-27%	-25%	-23%	-20%	-18%	-16%	-14%	-11%	-9%	-7%	-5%	-2%	0%	2%	5%	7%	9%	11%	14%
$45.00	-42%	-40%	-38%	-36%	-33%	-31%	-29%	-27%	-24%	-22%	-20%	-18%	-16%	-13%	-11%	-9%	-7%	-4%	-2%	0%	2%	4%	7%	9%	11%
$46.00	-43%	-41%	-39%	-37%	-35%	-33%	-30%	-28%	-26%	-24%	-22%	-20%	-17%	-15%	-13%	-11%	-9%	-7%	-4%	-2%	0%	2%	4%	7%	9%
$47.00	-45%	-43%	-40%	-38%	-36%	-34%	-32%	-30%	-28%	-26%	-23%	-21%	-19%	-17%	-15%	-13%	-11%	-9%	-6%	-4%	-2%	0%	2%	4%	6%
$48.00	-46%	-44%	-42%	-40%	-38%	-35%	-33%	-31%	-29%	-27%	-25%	-23%	-21%	-19%	-17%	-15%	-13%	-10%	-8%	-6%	-4%	-2%	0%	2%	4%
$49.00	-47%	-45%	-43%	-41%	-39%	-37%	-35%	-33%	-31%	-29%	-27%	-24%	-22%	-20%	-18%	-16%	-14%	-12%	-10%	-8%	-6%	-4%	-2%	0%	2%
$50.00	-48%	-46%	-44%	-42%	-40%	-38%	-36%	-34%	-32%	-30%	-28%	-26%	-24%	-22%	-20%	-18%	-16%	-14%	-12%	-10%	-8%	-6%	-4%	-2%	0%